

**TENNESSEE BOARD OF REGENTS
THE UNIVERSITY OF MEMPHIS**

**FOR THE YEAR ENDED
JUNE 30, 1996**

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Editor

January 17, 1997

The Honorable Don Sundquist, Governor

and

Members of the General Assembly

State Capitol

Nashville, Tennessee 37243

and

The Honorable Charles E. Smith, Chancellor

Tennessee Board of Regents

1415 Murfreesboro Road, Suite 350

Nashville, Tennessee 37217

and

Dr. V. Lane Rawlins, President

The University of Memphis

Memphis, Tennessee 38152

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, The University of Memphis, for the year ended June 30, 1996. You will note from the independent auditor's report that a qualified opinion was given on the fairness of the presentation of the financial statements. The university has elected not to record the liability for accrued compensated absences in its financial statements. In our opinion, accrued compensated absences should be recorded to conform with generally accepted accounting principles.

Consideration of the internal control structure and tests of compliance resulted in no audit findings.

Very truly yours,

W. R. Snodgrass

Comptroller of the Treasury

WRS/cr

96/122

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
The University of Memphis
For the Year Ended June 30, 1996

AUDIT OBJECTIVES

The objectives of the audit were to consider the university's internal control structure; to determine compliance with laws, regulations, contracts, and grants; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

AUDIT FINDINGS

The audit report contains no findings.

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is qualified because of the omission of the liability for accrued compensated absences from the financial statements.

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report which contains all findings, recommendations, and management comments, please contact

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-0264
(615) 741-3697

AUDIT REPORT
TENNESSEE BOARD OF REGENTS
THE UNIVERSITY OF MEMPHIS
FOR THE YEAR ENDED JUNE 30, 1996

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TENNESSEE BOARD OF REGENTS
THE UNIVERSITY OF MEMPHIS
FOR THE YEAR ENDED JUNE 30, 1996

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Tennessee Board of Regents, The University of Memphis. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any state governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the university’s internal control structure to determine auditing procedures for the purpose of expressing an opinion on the financial statements;
2. to determine compliance with laws, regulations, contracts, and grants;
3. to determine the fairness of the presentation of the financial statements; and
4. to recommend appropriate actions to correct any deficiencies.

Although this audit was not intended to serve as an organization-wide audit as described in the Single Audit Act of 1984 and Office of Management and Budget (OMB) Circular A-128, “Audits of State and Local Governments,” it included tests of compliance with applicable federal laws and regulations and consideration of the internal control structure used in administering federal financial assistance programs. This audit is a segment of the organization-wide audit of the State of Tennessee, which is conducted in accordance with the Single Audit Act of 1984 and OMB Circular A-128.

SCOPE OF THE AUDIT

The audit was limited to the period July 1, 1995, through June 30, 1996, and was conducted in accordance with generally accepted government auditing standards. Financial statements are presented for the year ended June 30, 1996, and for comparative purposes, the year ended June 30, 1995. The University of Memphis is an institution of the Tennessee Board of Regents, which is an integral part of state government. As such, the Tennessee Board of Regents has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

BACKGROUND AND ORGANIZATION

BACKGROUND

In 1909, the General Assembly of Tennessee enacted a general education law providing for the establishment and maintenance of three normal schools in the state, one of which was to be located in Memphis. On September 15, 1912, West Tennessee State Normal School opened and in 1925 became a senior college. On July 1, 1957, the institution was designated Memphis State University, and on July 1, 1994, the name was changed to The University of Memphis.

The university is a fully accredited institution of higher education and comprises the Cecil C. Humphrey's School of Law, the graduate school, and the six undergraduate colleges—the College of Arts and Sciences, the Fogelman College of Business and Economics, the College of Education, the Herff College of Engineering, the College of Communication and Fine Arts, and the University College.

ORGANIZATION

The governance of The University of Memphis is vested in the Tennessee Board of Regents. The Governor, the Commissioner of Education, the Commissioner of Agriculture, and the Director of the Tennessee Higher Education Commission serve *ex officio* on this board. The chief administrative officer of the university is the president, who is assisted and advised by members of the faculty and administrative staff.

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control Structure

As part of the audit of the university's financial statements for the year ended June 30, 1996, we considered the internal control structure to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by generally accepted government auditing standards. The report on the internal control structure is on the following pages. Consideration of the internal control structure disclosed no material weaknesses.

Compliance with Laws and Regulations

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under generally accepted government auditing standards. The compliance report follows the report on the internal control structure.

Fairness of Financial Statement Presentation

The university has elected not to accrue the liability for compensated absences. Since this accounting practice is contrary to generally accepted accounting principles, the Division of State Audit has rendered a qualified opinion on the university's financial statements. The independent auditor's report follows the compliance report.

**Report on the Internal Control Structure Based on an
Audit of the Financial Statements Performed in Accordance With
*Government Auditing Standards***

November 1, 1996

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the financial statements of The University of Memphis, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of and for the year ended June 30, 1996, and have issued our report thereon dated November 1, 1996. Our report was qualified because the university excluded the liability for accrued compensated absences from the balance sheet.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The university's management is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any

The Honorable W. R. Snodgrass
November 1, 1996
Page Two

internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the university's financial statements for the year ended June 30, 1996, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors and irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

However, we noted certain matters involving the internal control structure and its operation that we have reported to the university's management in a separate letter.

This report is intended for the information of the General Assembly of the State of Tennessee and management. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/cr

**Compliance Report Based on an Audit of the
Financial Statements Performed in Accordance
With *Government Auditing Standards***

November 1, 1996

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the financial statements of The University of Memphis, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of and for the year ended June 30, 1996, and have issued our report thereon dated November 1, 1996. Our report was qualified because the university excluded the liability for accrued compensated absences from the balance sheet.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the university is the responsibility of the university's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the university's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The Honorable W. R. Snodgrass
November 1, 1996
Page Two

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under generally accepted government auditing standards.

We did, however, note certain immaterial instances of noncompliance that we have reported to the university's management in a separate letter.

This report is intended for the information of the General Assembly of the State of Tennessee and management. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/cr

Independent Auditor's Report

November 1, 1996

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the accompanying balance sheets of The University of Memphis, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of June 30, 1996, and June 30, 1995, and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes for the years then ended. These financial statements are the responsibility of the university's management. Our responsibility is to express an opinion on these financial statements, based on our audits.

We conducted our audits in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 2 to the financial statements, the university has excluded the liability for accrued compensated absences from the accompanying balance sheets. In our opinion, accrued compensated absences should be included to conform with generally accepted accounting principles.

The Honorable W. R. Snodgrass
November 1, 1996
Page Two

In our opinion, except for the effects of not including the liability for accrued compensated absences in the accompanying balance sheets, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Board of Regents, The University of Memphis, as of June 30, 1996, and June 30, 1995, and the changes in fund balances and the current funds revenues, expenditures, and other changes for the years then ended in conformity with generally accepted accounting principles.

In accordance with generally accepted government auditing standards, we have also issued reports dated November 1, 1996, on our consideration of the university's internal control structure and on its compliance with laws and regulations.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/cr

TENNESSEE BOARD OF REGENTS
THE UNIVERSITY OF MEMPHIS
BALANCE SHEETS
JUNE 30, 1996, WITH COMPARATIVE TOTALS FOR JUNE 30, 1995

<u>ASSETS</u>	<u>June 30, 1996</u>	<u>June 30, 1995</u>	<u>LIABILITIES AND FUND BALANCES</u>	<u>June 30, 1996</u>	<u>June 30, 1995</u>
Current funds:			Current funds:		
Unrestricted:			Unrestricted:		
General:			General:		
Cash and cash equivalents (Notes 3 and 4)	\$ 6,928,509.74	\$ 7,934,383.50	Liabilities:		
Investments (Note 5)	14,751,977.98	12,084,652.99	Accounts payable	\$ 3,008,333.88	\$ 2,517,724.89
Accrued interest receivable	185,536.77	172,705.40	Accrued liabilities	8,059,045.09	8,021,057.91
Accounts receivable (net of allowance of \$ 577,507.02 at June 30, 1996, and of \$532,719.75 at June 30, 1995)	3,022,656.68	2,204,882.07	Student deposits	233,177.00	178,584.70
Inventories	624,275.18	663,958.47	Deferred revenues	6,634,334.30	6,473,568.49
Prepaid expenses and deferred charges	43,341.11	61,595.03	Total liabilities	17,934,890.27	17,190,935.99
			Fund balances:		
			Nondiscretionary allocations:		
			Allocation for working capital	1,810,697.50	1,232,858.07
			Allocation for encumbrances	1,395,516.53	1,431,435.74
			Allocation for designated appropriations	382,741.11	342,356.82
			Discretionary allocations	3,483,025.02	1,964,597.90
			Unallocated	549,427.03	959,992.94
			Total fund balances	7,621,407.19	5,931,241.47
Total general	25,556,297.46	23,122,177.46	Total general	25,556,297.46	23,122,177.46
Auxiliary enterprises:			Auxiliary enterprises:		
Cash and cash equivalents (Notes 3 and 4)	5,890,357.76	5,052,265.78	Liabilities:		
Accrued interest receivable	-	3,283.89	Accounts payable	462,246.20	102,055.40
Accounts receivable (net of allowance of \$259,362.66 at June 30, 1996, and of \$246,215.52 at June 30, 1995)	922,281.55	721,738.78	Accrued liabilities	75,986.41	46,863.92
Prepaid expenses and deferred charges	2,440.48	15,128.12	Student deposits	362,257.81	337,289.92
			Deferred revenue	1,098,766.44	864,747.99
			Total liabilities	1,999,256.86	1,350,957.23

TENNESSEE BOARD OF REGENTS
THE UNIVERSITY OF MEMPHIS
BALANCE SHEETS
JUNE 30, 1996, WITH COMPARATIVE TOTALS FOR JUNE 30, 1995

<u>ASSETS</u>	<u>June 30, 1996</u>	<u>June 30, 1995</u>	<u>LIABILITIES AND FUND BALANCES</u>	<u>June 30, 1996</u>	<u>June 30, 1995</u>
			Fund balances:		
			Nondiscretionary allocations:		
			Allocation for working capital	836,460.60	698,292.72
			Allocation for encumbrances	75,618.47	99,285.90
			Discretionary allocations:		
			Allocation for contingencies	1,584,365.66	531,197.04
			Allocation for athletic contingencies	-	1,635,648.58
			Unallocated	<u>2,319,378.20</u>	<u>1,477,035.10</u>
			Total fund balances	<u>4,815,822.93</u>	<u>4,441,459.34</u>
Total auxiliary enterprises	<u>6,815,079.79</u>	<u>5,792,416.57</u>	Total auxiliary enterprises	<u>6,815,079.79</u>	<u>5,792,416.57</u>
Total unrestricted	<u>32,371,377.25</u>	<u>28,914,594.03</u>	Total unrestricted	<u>32,371,377.25</u>	<u>28,914,594.03</u>
Restricted:			Restricted:		
Cash and cash equivalents (Notes 3 and 4)	434,679.19	512,347.84	Liabilities:		
Accounts receivable	-	7,116.00	Accounts payable	261,258.96	189,149.12
Grants receivable	<u>5,758,243.33</u>	<u>5,677,666.31</u>	Accrued liabilities	565,723.08	650,837.12
			Deposits	<u>7,030.00</u>	<u>7,415.00</u>
			Total liabilities	<u>834,012.04</u>	<u>847,401.24</u>
			Fund balance	<u>5,358,910.48</u>	<u>5,349,728.91</u>
Total restricted	<u>6,192,922.52</u>	<u>6,197,130.15</u>	Total restricted	<u>6,192,922.52</u>	<u>6,197,130.15</u>
Total current funds	<u>\$ 38,564,299.77</u>	<u>\$ 35,111,724.18</u>	Total current funds	<u>\$ 38,564,299.77</u>	<u>\$ 35,111,724.18</u>
Loan funds:			Loan funds:		
Cash and cash equivalents (Notes 3 and 4)	\$ 1,304,702.20	\$ 1,410,355.20	Fund balances:		
Accounts receivable	15,306.44	33,498.21	U.S. government grants refundable	\$ 2,278,796.13	\$ 2,199,192.28
Notes receivable (net of allowance of \$1,418,713.33 at June 30, 1996, and of \$1,309,119.13 at June 30, 1995)	<u>3,350,459.48</u>	<u>2,996,459.66</u>	University funds:		
			Restricted - matching	253,199.57	244,354.70
			Restricted - other	<u>2,138,472.42</u>	<u>1,996,766.09</u>
Total loan funds	<u>\$ 4,670,468.12</u>	<u>\$ 4,440,313.07</u>	Total loan funds	<u>\$ 4,670,468.12</u>	<u>\$ 4,440,313.07</u>

TENNESSEE BOARD OF REGENTS
THE UNIVERSITY OF MEMPHIS
BALANCE SHEETS
JUNE 30, 1996, WITH COMPARATIVE TOTALS FOR JUNE 30, 1995

<u>ASSETS</u>	<u>June 30, 1996</u>	<u>June 30, 1995</u>	<u>LIABILITIES AND FUND BALANCES</u>	<u>June 30, 1996</u>	<u>June 30, 1995</u>
Endowment and similiar funds:			Endowment and similar funds:		
Cash and cash equivalents (Notes 3 and 4)	\$ 223,330.17	\$ 93,937.44	Fund balances:		
Investments (Note 5)	6,052,402.88	5,978,845.00	Endowment	\$ 3,266,588.03	\$ 3,132,517.42
Accrued interest receivable	<u>53,243.99</u>	<u>50,809.90</u>	Quasi-endowment:		
			Unrestricted	<u>3,062,389.01</u>	<u>2,991,074.92</u>
Total endowment and similar funds	\$ <u>6,328,977.04</u>	\$ <u>6,123,592.34</u>	Total endowment and similar funds	\$ <u>6,328,977.04</u>	\$ <u>6,123,592.34</u>
Plant funds:			Plant funds:		
Unexpended plant:			Unexpended plant:		
Cash and cash equivalents (Notes 3 and 4)	\$ 3,788,999.02	\$ 3,000,281.87	Liabilities:		
Investments (Note 5)	999,659.75	969,060.00	Accounts payable	\$ 198,665.09	\$ 442.61
LGIP deposit - capital projects (Note 1)	1,733,194.22	1,711,564.62	Notes payable (Note 7)	<u>590,000.00</u>	<u>-</u>
Tennessee State School Bond Authority debt proceeds receivable	590,000.00	-	Total liabilities	<u>788,665.09</u>	<u>442.61</u>
Accrued interest receivable	24,371.55	18,395.00			
Accounts receivable	<u>1,163.00</u>	<u>501,661.49</u>	Fund balance:		
			Unrestricted - (Note 6)	<u>6,348,722.45</u>	<u>6,200,520.37</u>
Total unexpended plant	<u>7,137,387.54</u>	<u>6,200,962.98</u>	Total unexpended plant	<u>7,137,387.54</u>	<u>6,200,962.98</u>
Renewals and replacements:			Renewals and replacements:		
Cash and cash equivalents (Notes 3 and 4)	3,629,116.57	6,538,932.64	Liabilities:		
Investments (Note 5)	7,304,542.17	7,006,220.50	Accounts payable	<u>34,768.63</u>	<u>30,739.00</u>
Accrued interest receivable	<u>57,719.37</u>	<u>80,010.24</u>	Fund balance:		
			Unrestricted (Note 6)	<u>10,956,609.48</u>	<u>13,594,424.38</u>
Total renewals and replacements	<u>10,991,378.11</u>	<u>13,625,163.38</u>	Total renewals and replacements	<u>10,991,378.11</u>	<u>13,625,163.38</u>

TENNESSEE BOARD OF REGENTS
THE UNIVERSITY OF MEMPHIS
BALANCE SHEETS
JUNE 30, 1996, WITH COMPARATIVE TOTALS FOR JUNE 30, 1995

<u>ASSETS</u>	<u>June 30, 1996</u>	<u>June 30, 1995</u>	<u>LIABILITIES AND FUND BALANCES</u>	<u>June 30, 1996</u>	<u>June 30, 1995</u>
Retirement of indebtedness:			Retirement of indebtedness:		
Cash and cash equivalents (Notes 3 and 4)	3,981,352.98	2,976,951.01	Liabilities:		
Funds on deposit with Tennessee State	2,497,321.26	2,497,321.26	Accrued interest payable	196,349.02	210,232.86
School Bond Authority (Note 5)					
Accrued interest receivable	<u>25,602.28</u>	<u>29,383.52</u>	Fund balances:		
			Restricted	2,497,321.26	2,497,321.26
			Unrestricted	<u>3,810,606.24</u>	<u>2,796,101.67</u>
			Total fund balances	<u>6,307,927.50</u>	<u>5,293,422.93</u>
Total retirement of indebtedness	<u>6,504,276.52</u>	<u>5,503,655.79</u>	Total retirement of indebtedness	<u>6,504,276.52</u>	<u>5,503,655.79</u>
Investment in plant:			Investment in plant:		
Land	12,139,415.30	12,081,511.46	Liabilities:		
Buildings	125,906,794.13	125,875,655.53	Notes payable (Note 7)	3,375,644.36	3,375,644.36
Improvements other than buildings	12,807,073.07	12,764,254.73	Bonds payable (Note 7)	<u>18,730,735.71</u>	<u>20,009,163.53</u>
Equipment	61,187,628.32	59,533,306.99	Total liabilities	<u>22,106,380.07</u>	<u>23,384,807.89</u>
Library holdings	43,911,760.80	42,507,665.30			
Construction in progress	<u>1,235,908.36</u>	<u>141,856.18</u>	Fund balance:		
			Net investment in plant	<u>235,082,199.91</u>	<u>229,519,442.30</u>
Total investment in plant	<u>257,188,579.98</u>	<u>252,904,250.19</u>	Total investment in plant	<u>257,188,579.98</u>	<u>252,904,250.19</u>
Total plant funds	\$ <u>281,821,622.15</u>	\$ <u>278,234,032.34</u>	Total plant funds	\$ <u>281,821,622.15</u>	\$ <u>278,234,032.34</u>
Agency funds:			Agency funds:		
Cash and cash equivalents (Notes 3 and 4)	\$ 520,001.14	\$ 199,331.26	Accounts payable	\$ 4,487.05	\$ 261.38
Accounts receivable	<u>2,613.29</u>	<u>80,686.79</u>	Deposits held in custody for others	<u>518,127.38</u>	<u>279,756.67</u>
Total agency funds	\$ <u>522,614.43</u>	\$ <u>280,018.05</u>	Total agency funds	\$ <u>522,614.43</u>	\$ <u>280,018.05</u>

The notes to the financial statements are an integral part of this statement.

TENNESSEE BOARD OF REGENTS
THE UNIVERSITY OF MEMPHIS
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1996

	Current Funds				Plant Funds			
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment In Plant
REVENUES AND OTHER ADDITIONS								
Unrestricted current fund revenues	\$ 144,108,905.24	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	-
Auxiliary enterprise revenues	22,532,907.02	-	-	-	-	-	-	-
State appropriations	-	2,760,800.00	-	-	1,087,885.77	-	238,521.65	-
Federal grants and contracts	-	15,085,110.94	28,688.00	-	-	-	13,864.00	-
State grants and contracts	-	3,721,829.80	-	-	-	-	-	-
Local grants and contracts	-	1,360,861.90	-	-	-	-	-	-
Private gifts, grants, and contracts	-	4,586,306.15	-	29,221.54	-	-	-	-
Investment income	-	146,837.86	62,337.11	-	345,395.57	740,671.57	434,464.09	-
Interest on loans receivable	-	-	226,657.51	-	-	-	-	-
Student debt service fees	-	-	-	-	-	-	1,276,228.68	-
Expended for plant facilities (including \$8,074,237.91 charged to current fund expenditures)	-	-	-	-	-	-	-	12,221,193.78
Equipment use charges	-	-	-	-	-	1,276,900.03	-	-
Retirement of indebtedness	-	-	-	-	-	-	-	1,278,427.82
Endowment income	-	1,785,800.87	48,169.50	71,707.33	-	-	-	-
Other (Note 11)	-	14,615.05	8,927.00	104,455.83	-	13,075.00	-	298,504.13
Total revenues and other additions	166,641,812.26	29,462,162.57	374,779.12	205,384.70	1,433,281.34	2,030,646.60	1,963,078.42	13,798,125.73
EXPENDITURES AND OTHER DEDUCTIONS								
Educational and general expenditures	142,851,519.40	27,014,932.68	-	-	-	-	-	-
Auxiliary enterprise expenditures	18,862,236.04	164,157.37	-	-	-	-	-	-
Indirect costs recovered	-	2,121,125.33	-	-	-	-	-	-
Refunded to grantors	-	24,586.15	207.81	-	-	-	-	-
Loan cancellations and write-offs	-	-	14,301.11	-	-	-	-	-
Administrative and collection costs	-	-	774.50	-	-	-	6,262.88	-
Expended for plant facilities	-	-	-	-	1,408,943.84	2,738,012.03	-	-
Noncapitalized expenditures	-	-	-	-	2,287,944.69	758,244.31	-	-
Retirement of indebtedness	-	-	-	-	-	-	1,278,427.82	-
Interest on indebtedness	-	-	-	-	-	-	1,278,841.55	-
Disposal of plant facilities	-	-	-	-	-	-	-	7,038,369.93
Provision for doubtful accounts	-	-	109,653.39	-	-	-	-	-
Library holdings revaluation	-	-	-	-	-	-	-	1,196,998.19
Other (Note 11)	-	128,179.47	28,652.26	-	-	-	-	-
Total expenditures and other deductions	161,713,755.44	29,452,981.00	153,589.07	-	3,696,888.53	3,496,256.34	2,563,532.25	8,235,368.12
TRANSFERS AMONG FUNDS - ADDITIONS (DEDUCTIONS)								
Mandatory:								
Loan fund matching grant	(8,965.00)	-	8,965.00	-	-	-	-	-
Principal and interest	(1,614,958.40)	-	-	-	-	-	1,614,958.40	-
Nonmandatory:								
Unexpended plant	(974,809.27)	-	-	-	2,411,809.27	(1,437,000.00)	-	-
Renewals and replacements	(264,794.84)	-	-	-	-	264,794.84	-	-
Total transfers	(2,863,527.51)	-	8,965.00	-	2,411,809.27	(1,172,205.16)	1,614,958.40	-

TENNESSEE BOARD OF REGENTS
THE UNIVERSITY OF MEMPHIS
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1996

	<u>Current Funds</u>		<u>Loan Funds</u>	<u>Endowment and Similar Funds</u>	<u>Plant Funds</u>			
	<u>Unrestricted</u>	<u>Restricted</u>			<u>Unexpended</u>	<u>Renewals and Replacements</u>	<u>Retirement of Indebtedness</u>	<u>Investment In Plant</u>
Net increase (decrease) for the year	2,064,529.31	9,181.57	230,155.05	205,384.70	148,202.08	(2,637,814.90)	1,014,504.57	5,562,757.61
Fund balances at beginning of year	<u>10,372,700.81</u>	<u>5,349,728.91</u>	<u>4,440,313.07</u>	<u>6,123,592.34</u>	<u>6,200,520.37</u>	<u>13,594,424.38</u>	<u>5,293,422.93</u>	<u>229,519,442.30</u>
Fund balances at end of year	\$ <u><u>12,437,230.12</u></u>	\$ <u><u>5,358,910.48</u></u>	\$ <u><u>4,670,468.12</u></u>	\$ <u><u>6,328,977.04</u></u>	\$ <u><u>6,348,722.45</u></u>	\$ <u><u>10,956,609.48</u></u>	\$ <u><u>6,307,927.50</u></u>	\$ <u><u>235,082,199.91</u></u>

The notes to the financial statements are an integral part of this statement.

TENNESSEE BOARD OF REGENTS
THE UNIVERSITY OF MEMPHIS
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1995

	Current Funds				Plant Funds			
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment In Plant
REVENUES AND OTHER ADDITIONS								
Unrestricted current fund revenues	\$ 137,040,019.56	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Auxiliary enterprise revenues	22,297,504.29	-	-	-	-	-	-	-
State appropriations	-	2,704,900.00	-	-	4,628,077.75	-	256,936.16	-
Federal grants and contracts	-	14,033,406.47	25,876.00	-	-	-	13,864.00	-
State grants and contracts	-	3,231,460.17	-	-	-	-	-	-
Local grants and contracts	-	1,120,742.24	-	-	-	-	-	-
Private gifts, grants, and contracts	-	4,789,157.37	500.00	34,151.74	-	-	-	-
Investment income	-	125,285.52	65,528.52	-	226,706.95	703,921.85	196,961.87	-
Interest on loans receivable	-	-	180,581.32	-	-	-	-	-
Student debt service fees	-	-	-	-	-	-	1,137,838.32	-
Expended for plant facilities (including \$7,540,989.02 charged to current fund expenditures)	-	-	-	-	-	-	-	13,395,044.42
Equipment use charges	-	-	-	-	-	1,339,752.78	-	-
Retirement of indebtedness	-	-	-	-	-	-	-	1,214,418.77
Endowment income	-	1,648,349.19	20,325.00	79,580.67	-	-	-	-
Provision for doubtful accounts adjustment	-	-	12,377.90	-	-	-	-	-
Other (Note 11)	-	96,298.09	14,330.98	46,337.01	8,647.45	725.00	-	33,651.85
Total revenues and other additions	159,337,523.85	27,749,599.05	319,519.72	160,069.42	4,863,432.15	2,044,399.63	1,605,600.35	14,643,115.04
EXPENDITURES AND OTHER DEDUCTIONS								
Educational and general expenditures	137,846,468.74	25,546,365.43	-	-	-	-	-	-
Auxiliary enterprise expenditures	18,895,309.91	297,522.54	-	-	-	-	-	-
Indirect costs recovered	-	1,925,278.16	-	-	-	-	-	-
Refunded to grantors	-	54,476.19	45.00	-	-	-	-	-
Loan cancellations and write-offs	-	-	12,839.13	-	-	-	-	-
Administrative and collection costs	-	-	19,810.00	-	-	-	20,189.67	-
Expended for plant facilities	-	-	-	-	4,623,981.77	1,230,073.63	-	-
Noncapitalized expenditures	-	-	-	-	1,189,717.35	632,059.20	-	-
Retirement of indebtedness	-	-	-	-	-	-	1,214,418.77	-
Interest on indebtedness	-	-	-	-	-	-	1,339,698.69	-
Disposal of plant facilities	-	-	-	-	-	-	-	2,458,163.08
Income earned and reverted to endowment principal	-	-	33,584.54	-	-	-	-	-
Chairs of Excellence matching	-	-	-	1,248,308.78	-	-	-	-
Library holdings revaluation	-	-	-	-	-	-	-	1,288,762.65
Other (Note 11)	-	78,072.06	-	-	-	-	-	-
Total expenditures and other deductions	156,741,778.65	27,901,714.38	66,278.67	1,248,308.78	5,813,699.12	1,862,132.83	2,574,307.13	3,746,925.73

TENNESSEE BOARD OF REGENTS
THE UNIVERSITY OF MEMPHIS
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1995

	Current Funds			Endowment and	Plant Funds			
	Unrestricted	Restricted	Loan Funds	Similar Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment In Plant
<u>TRANSFERS AMONG FUNDS - ADDITIONS</u>								
<u>(DEDUCTIONS)</u>								
Mandatory:								
Loan fund matching grant	(8,625.00)	-	8,625.00	-	-	-	-	-
Endowment and similar funds	-	(52,788.15)	-	52,788.15	-	-	-	-
Principal and interest	(1,813,333.02)	-	-	-	-	-	1,813,333.02	-
Nonmandatory:								
Restricted current funds	-	15,888.05	-	-	(15,888.05)	-	-	-
Endowment and similar funds	(324,482.07)	-	-	324,482.07	-	-	-	-
Unexpended plant	(475,939.71)	-	-	-	1,621,939.71	(646,000.00)	(500,000.00)	-
Renewals and replacements	(1,061,343.97)	-	-	-	-	1,061,343.97	-	-
Total transfers	(3,683,723.77)	(36,900.10)	8,625.00	377,270.22	1,606,051.66	415,343.97	1,313,333.02	-
Net increase (decrease) for the year	(1,087,978.57)	(189,015.43)	261,866.05	(710,969.14)	655,784.69	597,610.77	344,626.24	10,896,189.31
Fund balance at beginning of year	11,460,679.38	5,538,744.34	4,178,447.02	6,834,561.48	5,544,735.68	12,996,813.61	4,948,796.69	218,623,252.99
Fund balance at end of year	\$ 10,372,700.81	\$ 5,349,728.91	\$ 4,440,313.07	\$ 6,123,592.34	\$ 6,200,520.37	\$ 13,594,424.38	\$ 5,293,422.93	\$ 229,519,442.30

The notes to the financial statements are an integral part of this statement.

TENNESSEE BOARD OF REGENTS
THE UNIVERSITY OF MEMPHIS
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 1996

	Unrestricted	Restricted	Total
REVENUES			
Tuition and fees	\$ 46,126,536.92	\$ -	\$ 46,126,536.92
State appropriations	90,400,400.00	2,733,699.53	93,134,099.53
Local appropriations	25,000.00	-	25,000.00
Federal grants and contracts	1,588,248.28	13,281,637.81	14,869,886.09
State grants and contracts	380,270.02	3,519,255.65	3,899,525.67
Local grants and contracts	1,250,638.68	1,499,082.57	2,749,721.25
Private gifts, grants, and contracts	509,755.94	4,429,213.21	4,938,969.15
Sales and services of educational activities	2,670,178.83	-	2,670,178.83
Sales and services of auxiliary enterprises	22,532,907.02	164,157.37	22,697,064.39
Endowment income	-	1,551,502.41	1,551,502.41
Other sources	1,157,876.57	541.50	1,158,418.07
Total current revenues	166,641,812.26	27,179,090.05	193,820,902.31
EXPENDITURES AND TRANSFERS			
Educational and general expenditures:			
Instruction	71,939,102.16	3,651,028.84	75,590,131.00
Research	4,656,147.27	11,001,496.91	15,657,644.18
Public service	4,589,946.53	3,977,709.82	8,567,656.35
Academic support	16,157,965.06	300,499.76	16,458,464.82
Student services	13,048,731.28	237,649.01	13,286,380.29
Institutional support	14,767,739.55	200,875.71	14,968,615.26
Operation and maintenance of plant	13,564,739.31	-	13,564,739.31
Scholarships and fellowships	4,127,148.24	7,645,672.63	11,772,820.87
Total educational and general expenditures	142,851,519.40	27,014,932.68	169,866,452.08
Educational and general transfers:			
Mandatory transfers:			
Loan fund matching grant	8,965.00	-	8,965.00
Principal and interest	114,256.20	-	114,256.20
Nonmandatory transfers:			
Unexpended plant	568,750.00	-	568,750.00
Renewals and replacements	(925,400.00)	-	(925,400.00)
Total educational and general expenditures and transfers	142,618,090.60	27,014,932.68	169,633,023.28
Auxiliary enterprises:			
Expenditures	18,862,236.04	164,157.37	19,026,393.41
Mandatory transfers:			
Principal and interest	1,500,702.20	-	1,500,702.20
Nonmandatory transfers:			
Unexpended plant	406,059.27	-	406,059.27
Renewals and replacements	1,190,194.84	-	1,190,194.84
Total auxiliary enterprises	21,959,192.35	164,157.37	22,123,349.72
Total expenditures and transfers	164,577,282.95	27,179,090.05	191,756,373.00

TENNESSEE BOARD OF REGENTS
THE UNIVERSITY OF MEMPHIS
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 1996

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
<u>OTHER TRANSFERS AND ADDITIONS</u>			
<u>(DEDUCTIONS)</u>			
Excess of restricted receipts over transfers to revenues	-	2,283,072.52	2,283,072.52
Indirect costs recovered	-	(2,121,125.33)	(2,121,125.33)
Refunded to grantors	-	(24,586.15)	(24,586.15)
Other deductions	-	(128,179.47)	(128,179.47)
Net increase in fund balance	\$ <u>2,064,529.31</u>	\$ <u>9,181.57</u>	\$ <u>2,073,710.88</u>

The notes to the financial statements are an integral part of this statement.

TENNESSEE BOARD OF REGENTS
THE UNIVERSITY OF MEMPHIS
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 1995

	Unrestricted	Restricted	Total
REVENUES			
Tuition and fees	\$ 43,549,852.03	\$ -	\$ 43,549,852.03
State appropriations	88,120,000.00	2,686,437.68	90,806,437.68
Local appropriations	25,000.00	-	25,000.00
Federal grants and contracts	1,517,379.00	12,640,741.64	14,158,120.64
State grants and contracts	367,544.41	3,540,200.98	3,907,745.39
Local grants and contracts	1,098,853.45	1,016,828.27	2,115,681.72
Private gifts, grants, and contracts	654,917.79	4,223,976.25	4,878,894.04
Sales and services of educational activities	791,548.48	-	791,548.48
Sales and services of auxiliary enterprises	22,297,504.29	297,522.54	22,595,026.83
Endowment income	-	1,438,180.61	1,438,180.61
Other sources	914,924.40	-	914,924.40
Total current revenues	159,337,523.85	25,843,887.97	185,181,411.82
EXPENDITURES AND TRANSFERS			
Educational and general expenditures:			
Instruction	71,727,115.31	3,802,173.51	75,529,288.82
Research	3,868,076.19	9,738,471.18	13,606,547.37
Public service	4,259,309.62	3,532,874.19	7,792,183.81
Academic support	15,600,013.28	985,003.41	16,585,016.69
Student services	11,725,035.76	245,445.11	11,970,480.87
Institutional support	13,862,213.93	155,501.48	14,017,715.41
Operation and maintenance of plant	13,136,173.54	-	13,136,173.54
Scholarships and fellowships	3,668,531.11	7,086,896.55	10,755,427.66
Total educational and general expenditures	137,846,468.74	25,546,365.43	163,392,834.17
Educational and general transfers:			
Mandatory transfers:			
Loan fund matching grant	8,625.00	-	8,625.00
Principal and interest	124,390.90	-	124,390.90
Nonmandatory transfers:			
Unexpended plant	213,733.53	-	213,733.53
Total educational and general expenditures and transfers	138,193,218.17	25,546,365.43	163,739,583.60
Auxiliary enterprises:			
Expenditures	18,895,309.91	297,522.54	19,192,832.45
Mandatory transfers:			
Principal and interest	1,688,942.12	-	1,688,942.12
Nonmandatory transfers:			
Endowment and similar funds	324,482.07	-	324,482.07
Unexpended plant	262,206.18	-	262,206.18
Renewals and replacements	1,061,343.97	-	1,061,343.97
Total auxiliary enterprises	22,232,284.25	297,522.54	22,529,806.79
Total expenditures and transfers	160,425,502.42	25,843,887.97	186,269,390.39

TENNESSEE BOARD OF REGENTS
THE UNIVERSITY OF MEMPHIS
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 1995

	Unrestricted	Restricted	Total
<u>OTHER TRANSFERS AND ADDITIONS</u>			
<u>(DEDUCTIONS)</u>			
Excess of restricted receipts over			
transfers to revenues	-	1,905,711.08	1,905,711.08
Indirect costs recovered	-	(1,925,278.16)	(1,925,278.16)
Refunded to grantors	-	(54,476.19)	(54,476.19)
Nonmandatoy transfers from unexpended plant	-	15,888.05	15,888.05
Mandatory transfer to endowment and similar funds	-	(52,788.15)	(52,788.15)
Other deductions	-	(78,072.06)	(78,072.06)
Net decrease in fund balance	\$ <u>(1,087,978.57)</u>	\$ <u>(189,015.43)</u>	\$ <u>(1,276,994.00)</u>

The notes to the financial statements are an integral part of this statement.

TENNESSEE BOARD OF REGENTS
THE UNIVERSITY OF MEMPHIS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1996, AND JUNE 30, 1995

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The university is part of the State University and Community College System of Tennessee (Tennessee Board of Regents). This system is a component unit of the State of Tennessee because the state appoints a majority of its governing body and provides financial support; the system is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

BASIS OF PRESENTATION

The financial statements of the university have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board. The university uses the AICPA College Guide model for accounting and financial reporting.

BASIS OF ACCOUNTING

The financial statements of the university have been prepared on the accrual basis, except that depreciation on plant assets is not recorded and revenues and expenditures of an academic term encompassing more than one fiscal year are reported solely in the fiscal year in which the term is predominantly conducted. All restricted resources are recorded as additions to the fund balances of the appropriate fund groups. Restricted current resources are then recorded as revenues during the period in which they are expended. The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period, as would a statement of income or a statement of revenues and expenses.

To the extent that current funds are used to finance plant assets, the funds are accounted for as (1) expenditures, for normal replacement of movable equipment and library holdings, (2) mandatory transfers, for required debt amortization and interest and equipment renewal and replacement, and (3) nonmandatory transfers, for all other cases.

TENNESSEE BOARD OF REGENTS
THE UNIVERSITY OF MEMPHIS
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 1996, AND JUNE 30, 1995

FUND ACCOUNTING

To ensure observance of limitations and restrictions placed on the use of the resources available, the university maintains accounts in accordance with the principles of fund accounting. With this procedure, resources for various purposes are classified for accounting and reporting purposes into funds for specified activities or objectives. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds with similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds which are allocated to specific purposes by the governing board. Externally restricted funds may be used only in accordance with the purposes established by the source of such funds and contrast with unrestricted funds over which the governing board retains full control to use in achieving any of its institutional purposes.

All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund that owned such assets. Ordinary income derived from investments, receivables, and the like is accounted for in the fund owning such assets, except for income derived from investments of endowment and similar funds. This income is accounted for in the fund to which it is restricted or, if unrestricted, as revenues in unrestricted current funds. All other unrestricted revenue is accounted for in the unrestricted current funds. Restricted gifts, grants, appropriations, endowment income, and other restricted resources are accounted for in the appropriate restricted funds. Restricted current funds are reported as revenues and expenditures when expended for current operating purposes.

Current Funds

Unrestricted current funds consist of those funds over which the university retains full control for use in achieving any of its authorized institutional purposes. Auxiliary enterprises activities are included in unrestricted current funds and include both University operated and contracted Food Services, Housing, the University store, Men's Intercollegiate Athletics, and Other Auxiliary Enterprises. Restricted current

TENNESSEE BOARD OF REGENTS
THE UNIVERSITY OF MEMPHIS
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 1996, AND JUNE 30, 1995

funds are externally restricted and may be used only in accordance with the purposes established by their source.

Loan Funds

Loan funds consist of resources made available for student loans.

Endowment and Similar Funds

Endowment funds are subject to the restrictions of gift instruments requiring in perpetuity that the principal be invested and only the income be used. Although quasi-endowment funds have been established by the governing board for the same purposes as endowment funds, any portion of quasi-endowment funds may be expended.

Plant Funds

The plant funds group consists of (1) funds set aside for the acquisition of physical properties for institutional purposes, (2) funds set aside for the renewal and replacement of institutional properties, (3) funds set aside for debt service charges and for the retirement of the indebtedness on institutional properties, and (4) funds expended for, and thus invested in, institutional properties.

Agency Funds

In handling these funds, the university acts solely as an agent; consequently, transactions of these funds do not affect the university's operating statements.

LGIP DEPOSIT-CAPITAL PROJECTS

Payments related to the university's capital projects are made by the State of Tennessee's Department of Finance and Administration. The university's estimated local share of the cost of each project is held in a separate Local Government Investment Pool (LGIP) account. As expenditures are incurred, funds are withdrawn from the

TENNESSEE BOARD OF REGENTS
THE UNIVERSITY OF MEMPHIS
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 1996, AND JUNE 30, 1995

LGIP account by the Tennessee Board of Regents and transferred to the Department of Finance and Administration. The funds in the account are not available to the university for any other purpose until the project is completed and any remaining funds are released by the Tennessee Board of Regents.

TENNESSEE STATE SCHOOL BOND AUTHORITY DEBT PROCEEDS
RECEIVABLE

Tennessee State School Bond Authority Debt Proceeds Receivable in unexpended plant consist of Tennessee State School Bond Authority loan proceeds that have not been expended.

INVENTORIES

Inventories are valued at the lower of cost or market. All items are maintained on an average cost basis.

ALLOCATION FOR WORKING CAPITAL

The unrestricted fund balance is allocated for the amount of working capital. "Working capital" is defined as the total of all petty cash, accounts receivable, inventories, and prepaid expenses in the unrestricted fund at the balance sheet date, except for student receivables credited to deferred revenue, accrued interest, and amounts due on federal letters of credit, less the accrued benefits on accrued faculty salaries.

PLANT ASSETS

The physical plant and equipment are stated at cost at date of purchase or at fair value at date of donation. Library books are valued at \$20 per volume, and other library holdings are valued at various standardized values. Livestock is valued at estimated market value. Depreciation on the physical plant and equipment is not recorded.

TENNESSEE BOARD OF REGENTS
THE UNIVERSITY OF MEMPHIS
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 1996, AND JUNE 30, 1995

In the case of service departments, the university charges renewal and replacement of plant assets to current expenditures; these charges are also reported as additions to funds for renewals and replacements.

NOTE 2. COMPENSATED ABSENCES

The university's employees accrue annual leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time. Generally accepted accounting principles require that certain accrued compensated absences and related benefits, the effects of which are material to the financial statements, be recorded as earned. The university's policy is to record such benefits as paid. The recognition of this liability for accrued compensated absences and related benefits would have increased the liabilities of the unrestricted current fund by \$5,066,284.50 at June 30, 1996, and \$4,964,403.06 at June 30, 1995, and increased the unrestricted current fund expenditures by \$101,881.44 for the year ended June 30, 1996, and \$238,067.48 for the year ended June 30, 1995.

NOTE 3. CASH AND CASH EQUIVALENTS

In addition to demand deposits and petty cash on hand, this classification includes instruments which are readily convertible to known amounts of cash and which have original maturities of three months or less. At June 30, 1996, cash and cash equivalents consisted of \$5,043,219.64 in bank accounts, \$60,745.00 of petty cash on hand, \$200,000.00 of certificates of deposit, and \$21,397,084.13 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer. At June 30, 1995, cash and cash equivalents consisted of \$608,499.38 in bank accounts, \$61,495.00 of petty cash on hand, \$3,200,000.00 of certificates of deposit, \$19,899,454.66 in the State of Tennessee Local Government Investment Pool, and \$3,949,337.50 in commercial paper.

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NOTE 4. DEPOSITS

The bank balances of certain deposits including accrued interest as of the balance sheet date were entirely insured or collateralized with securities held by the university's agent in the university's name. The laws of the State of Tennessee require that collateral be pledged to secure all uninsured deposits. Tennessee Board of Regents policies require that the market value of collateral pledged equal 105% of the uninsured deposits.

The university's remaining deposits are in financial institutions which participate in the bank collateral pool administered by the Treasurer of the State of Tennessee. The securities pledged to protect these deposits are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

NOTE 5. INVESTMENTS

The university is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies backed by the full faith and credit of the United States; repurchase agreements for United States securities; certificates of deposit in banks and savings and loan associations; bankers' acceptances; commercial paper; money market mutual funds; and the State of Tennessee Local Government Investment Pool. The policy requires that investments of endowments in equity securities be limited to funds from private gifts or other sources external to the university and that endowment investments be prudently diversified. Investments are valued at cost, or in the case of gifts, at fair value on the date of receipt. Certificates of deposit have been included with other deposits in Note 4 to determine the adequacy of collateral security pledged.

The university's investments are categorized below to indicate the level of risk assumed by the university at year-end. Category 1 consists of insured or registered investments or investments for which the securities are held by the university or its agent in the university's name. Category 2 consists of uninsured and unregistered investments for which the securities are held by the counterparties' trust department or

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agent in the university's name. Category 3 consists of uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the university's name.

June 30, 1996

	<u>Carrying Amount</u>	<u>Market Value</u>
Category 1:		
U. S. government securities	\$24,195,250.28	\$24,169,945.22
Commercial paper	4,913,332.50	4,913,332.50
Categories 2 and 3	<u>-</u>	<u>-</u>
Total investments on the balance sheet	<u>\$29,108,582.78</u>	<u>\$29,083,277.72</u>

June 30, 1995

	<u>Carrying Amount</u>	<u>Market Value</u>
Category 1:		
U. S. government securities	\$20,192,338.21	\$20,371,272.50
Commercial paper	9,795,777.78	9,870,914.72
Categories 2 and 3	-	-
Less commercial paper reported as cash equivalents	<u>(3,949,337.50)</u>	<u>(3,949,307.22)</u>
Total investments on the balance sheet	<u>\$26,038,778.49</u>	<u>\$26,292,880.00</u>

Funds on deposit with Tennessee State School Bond Authority in retirement of indebtedness consisted of securities held in the Tennessee State School Bond Authority debt service reserve pool.

NOTE 6. PLANT FUND ENCUMBRANCES

Plant fund encumbrances outstanding at June 30, 1996, amounted to \$3,060,124.00 for unexpended plant and \$613,944.39 for renewals and replacements. Plant fund

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encumbrances outstanding at June 30, 1995, amounted to \$783,152.49 for unexpended plant and \$859,780.53 for renewals and replacements.

NOTE 7. NOTES AND BONDS PAYABLE

Interim and short-term financing for various projects has been secured through the Tennessee State School Bond Authority from the Bond Anticipation Notes (BANs) Program established February 24, 1993, with Prudential Securities, Incorporated, as the underwriter and remarketing agent, to fund projects under construction. Under the BANs Program, the notes will mature on March 1, 1998, and may bear interest at a variable rate (daily, weekly, monthly, quarterly, semiannually, or annually) or a fixed rate (long-term) determined by the remarketing agent for periods selected by the authority. Currently, interest is determined on a weekly basis and payable monthly. The notes are subject to purchase by the remarketing agent on the demand of the holder on any business day pursuant to the conditions established in the Note Resolution, as described in the Official Statement relating to the notes. The remarketing agent is to use its best efforts to sell the notes to another holder. If the agent is unable to resell any notes that are "put," the standby note purchaser is required, subject to certain conditions, to purchase the notes. Swiss Bank Corporation, New York Branch, served as the standby note purchaser through June 25, 1996. On June 26, 1996, the authority contracted with Union Bank of Switzerland to serve as standby note purchaser through June 25, 1997. It is expected that a portion of the notes will be redeemed with the proceeds of the sale of bonds at the end of the construction period for the projects being financed. The standby note purchase agreement with Swiss Bank Corporation provided payment of .15% per \$1,000 prior to February 24, 1996, and .13% per \$1,000 thereafter of the principal and interest commitment of \$75,961,644; the fee was payable quarterly in arrears. The agreement with Union Bank of Switzerland provides for payment of .06 of 1% per annum on the available commitment and .05 of 1% per annum on the excess, if any, of \$106,173,699 over the available commitment provided that each of the foregoing rates shall each be increased by .10 of 1% per annum effective prospectively to the termination of this agreement. The balance owed by the university was \$3,965,644.36 at June 30, 1996, and \$3,375,664.36 at June 30, 1995.

Bond issues, with interest rates ranging from 4.1% to 7.0% for Tennessee State School Bond Authority bonds, are due serially to 2022 and are secured by pledges of the facilities' revenues to which they relate and certain other revenues and fees of the

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university, including state appropriations. The university assesses, specifically for debt-retirement purposes, a debt service fee of \$35.00 per semester for full-time students and \$3.00 per credit hour for part-time students.

The university's debt service requirements to maturity for all bonds payable at June 30, 1996, are as follows:

<u>Year Ending</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1997	1,348,460.00	1,150,668.45	2,499,128.45
1998	4,780,169.97	1,076,340.80	5,856,510.77
1999	1,481,649.77	996,740.70	2,478,390.47
2000	1,564,463.79	912,657.48	2,477,121.27
2001	1,094,545.40	823,754.78	1,918,300.18
2002-2022	<u>8,461,446.78</u>	<u>7,385,625.81</u>	<u>15,847,072.59</u>
	<u>\$18,730,735.71</u>	<u>\$12,345,788.02</u>	<u>\$31,076,523.73</u>

NOTE 8. PENSION PLANS

Defined Benefit Plan

All the university's regular employees may participate in a cost-sharing multiple-employer pension plan administered by the Tennessee Consolidated Retirement System (TCRS). The payroll for employees covered by the TCRS plan was \$46,397,327.96 for the year ended June 30, 1996, and \$45,576,878.83 for the year ended June 30, 1995. The university's total payroll was \$105,492,923.86 for the year ended June 30, 1996, and \$104,513,452.02 for the year ended June 30, 1995.

TCRS members may retire at age 60 with five years of service or at any age with 30 years of service. Early retirement with reduced benefits is available to vested members who are at least age 55 or have 25 years of service. Benefits are based on the number of years of creditable service and highest average salary for five consecutive years. Members are vested after five years of service. The TCRS also provides death and disability benefits. Disability benefits are available to members with five years of

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service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member performed duties. Benefits are established by state statute.

The university is required by state statute, effective July 1, 1981, to contribute the amounts necessary to pay benefits when due. Prior to that date, the employee bore a portion of the contribution. Members with contributory service who leave the university are eligible for a refund of their contributions, along with contributions made after July 1, 1981, on the employees' behalf by the university. The actuarially required contribution made for the year ended June 30, 1996, was \$2,936,950.86, which represented 6.33% of the covered payroll, and for the year ended June 30, 1995, was \$3,011,616.43, which represented 6.61% of the covered payroll.

The pension benefit obligation is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the TCRS' funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employee retirement systems and among employers. The TCRS does not make separate measurements of assets and pension benefit obligation for individual state employers. Therefore, the following information is provided for the entire state employee portion of the TCRS. The pension benefit obligation at June 30, 1996, and at June 30, 1995, determined through an actuarial update performed as of June 30, 1996, was \$11,610.6 million and through an actuarial valuation performed as of June 30, 1995, was \$10,697.4 million. The net assets, at cost or amortized cost, available for benefits were \$12,925.0 million at June 30, 1996, and \$11,566.8 million at June 30, 1995, leaving assets in excess of pension benefit obligation of \$1,314.4 million at June 30, 1996, and \$869.4 million at June 30, 1995. The market value of the net assets available for benefits was \$14,100.9 million at June 30, 1996, and \$12,552.1 million at June 30, 1995. The university's 1996 and 1995 contributions represented 1.0% and 1.1% of total contributions required of all participating entities.

Ten-year historical trend information showing the TCRS' progress in accumulating sufficient assets to pay benefits when due is presented in the June 30, 1996, *Tennessee Consolidated Retirement System Comprehensive Annual Financial Report*.

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Defined Contribution Plans

The university has three defined contribution plans offered through the Teachers Insurance and Annuity Association–College Retirement Equities Fund (TIAA-CREF), Aetna Life Insurance and Annuity Company, and Variable Annuity Life Insurance Company (VALIC). These plans are available only to eligible faculty and staff exempt from the overtime provision of the Fair Labor Standards Act. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. State statute requires the university to contribute an amount equal to 10% of the employee's base salary below the social security wage base and 11% above the social security wage base. Members are fully vested upon entry into the plans.

The payroll for employees covered by the defined contribution plans was \$42,466,095.21 for the year ended June 30, 1996, and \$40,914,621.49 for the year ended June 30, 1995. The university's total payroll was \$105,492,923.86 for the year ended June 30, 1996, and \$104,513,452.02 for the year ended June 30, 1995. The required contribution made by the university for the year ended June 30, 1996, was \$4,565,741.75, which represented 10.75% of the covered payroll, and for the year ended June 30, 1995, was \$4,280,020.03, which represented 10.46% of the covered payroll.

Deferred Compensation

Effective January 1996, the university, through the State of Tennessee, offers its employees a deferred compensation plan established pursuant to *Internal Revenue Code*, Section 401(k). Excluding the \$20 university match discussed below, all costs of administering and funding the plan are the responsibility of plan participants.

Since Section 401(k) plan assets remain the property of the contributing employees, they are not presented in the State of Tennessee financial statements. *Internal Revenue Code*, Section 401(k) establishes participation, contribution, and withdrawal provisions for the plan. Effective for the six-month period January through June 1996, the university provided a \$20 monthly Section 401(k) match from unrestricted current funds for employees making a minimum monthly contribution of \$20 to the plan. During the year ended June 30, 1996, contributions totaling \$316,753.45 were made by employees participating in the plan with a related match of \$105,780.00

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made by the university. The current covered payroll for participating employees was \$23,125,196.79, while the total payroll for all eligible university employees during the year was \$43,465,710.01.

NOTE 9. OTHER POST-EMPLOYMENT BENEFITS

The State of Tennessee administers a group health insurance program which provides post-employment health insurance benefits to eligible university retirees. This benefit is provided and administered by the State of Tennessee. The university assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report*.

NOTE 10. CHAIRS OF EXCELLENCE

The university had \$38,394,398.17 on deposit at June 30, 1996, and \$36,553,800.84 on deposit at June 30, 1995, with the State Treasurer for its Chairs of Excellence program. These funds are held in trust by the state and are not included in the financial statements.

NOTE 11. OTHER ADDITIONS AND DEDUCTIONS

The following amounts are included as “other additions” and “other deductions” on the Statements of Changes in Fund Balances:

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	<u>Year Ended</u> <u>June 30, 1996</u>	<u>Year Ended</u> <u>June 30, 1995</u>
Other Additions		
Restricted current funds:		
Licensing revenues	\$ -	\$ 86,130.25
Rental income	\$ -	\$ 9,093.57
Student funds	\$ -	\$ 1,074.27
Endowment and similar funds:		
Loan repayments to principal	\$ 48,210.67	\$ 45,636.62
Income reverted to principal	\$ 56,245.16	\$ 700.39
Investment in plant:		
Trade in allowances and other miscellaneous adjustments	\$298,504.13	\$ -
Other Deductions		
Restricted funds:		
Program administration	\$ 80,937.00	\$ 58,794.00
Residual transfers to unrestricted current funds	\$ 9,432.96	\$ 9,173.21
Scholarships reverted to endowment	\$ 35,334.51	\$ -
Miscellaneous	\$ 2,475.00	\$ -
Grant balance transfer to University of Maine	\$ -	\$ 10,104.85

NOTE 12. INSURANCE-RELATED ACTIVITIES

The state purchases commercial insurance for real property losses above \$5 million per year and surety bond coverage on the state's officials and employees. In the past three fiscal years, the state has not had any claims filed with the commercial insurer. A designation for casualty losses in the amount of \$5 million has been established in the state's general fund to provide for any property losses not covered by the commercial insurance.

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At June 30, 1996, the scheduled coverage for the university was \$349,572,100 for buildings and \$165,833,900 for contents. At June 30, 1995, the scheduled coverage was \$331,469,300 for buildings and \$158,532,400 for contents.

The state has set aside assets for claim settlement in an internal service fund, the Claims Award Fund. This fund services all claims for risk of loss to which the state is exposed, including general liability, automobile liability, professional malpractice, and workers' compensation. The university participates in the Claims Award Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the university based on a percentage of the university's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Since the university participates in the Claims Award Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the university for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Claims Award Fund.

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The university participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the university based on estimates of the ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

NOTE 13. COMMITMENTS AND CONTINGENCIES

Sick Leave - The university records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was \$43,804,281.88 at June 30, 1996, and \$44,003,029.12 at June 30, 1995.

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Operating Leases - The university has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenditures under operating leases for real property were \$447,794.11 and for personal property were \$130,094.48 for the year ended June 30, 1996. Comparative amounts for the year ended June 30, 1995, were \$332,633.79 and \$103,611.87. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 1996, outstanding commitments under construction contracts totaled \$3,674,068.39 for the University Library, Student Activities Complex, Preplanning Performing Arts Center, Renovation/Addition Physical Education Building, Arena Project, Library Plaza Landscape Improvements, Replace Plumbing in Richardson Towers, Master Plan Update, Major Maintenance, Motor Pool, Computer Services, Fogelman Executive Food Services, and Student Housing, of which \$353,985.68 will be funded by future state capital outlay appropriations.

Litigation - The university is involved in several lawsuits, none of which are expected to have a material effect on the accompanying financial statements.

NOTE 14. AFFILIATED ENTITY NOT INCLUDED

The university is the sole beneficiary of the University of Memphis Foundation. This private, nonprofit foundation is controlled by a board independent of the university. The financial records, investments, and other financial transactions are not handled by the university, and these amounts are not included in the university's financial statements. As reported in the foundation's most recently audited financial report, at June 30, 1996, the foundation's total assets were \$30,985,561, liabilities were \$363,969, and total net assets amounted to \$30,621,592.

NOTE 15. FUNDS HELD IN TRUST BY OTHERS

The university is a beneficiary under the Van Vleet, the Mike Driver, the Pope M. Farrington, the C.M. Gooch, and the Herbert Herff trusts. The underlying assets are not considered assets of the university and are not included in the university's

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financial statements. The university received \$600,523.21 from these funds during the year ended June 30, 1996, and \$483,589.84 during the year ended June 30, 1995.

NOTE 16. FEDERAL DIRECT LOAN PROGRAM

The university participates in the Federal Direct Loan Program. Activity of this program is not included in the financial statements of the university, however it is included on the Schedule of Federal Financial Assistance prepared in compliance with OMB Circular A-128 and presented in the State of Tennessee Single Audit Report for the year ended June 30, 1996. The university acts as agent for the U.S. Government in disbursing the funds to students.